

Message Text

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INFO OCT-01 ISO-00 AGR-05 PA-01 PRS-01 USIA-06 DODE-00

SP-02 AID-05 EB-07 NSC-05 RSC-01 CIEP-01 TRSE-00

SS-15 STR-01 OMB-01 CEA-01 CIAE-00 COME-00 FRB-01

INR-05 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01 IO-10

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R 031250Z DEC 74

FM AMEMBASSY TEHRAN

TO SECSTATE WASHDC 9278

C O N F I D E N T I A L SECTION 1 OF 2 TEHRAN 10257

E.O. 11652: GDS

TAGS: EFIN, ECON, IR

SUBJ: REVISED BUDGET FOR CURRENT IRANIAN YEAR AND PROPOSALS
FOR YEAR BEGINNING MARCH 21, 1975 (1354)

REF: A) TEHRAN A-007 B) TEHRAN 0067 C) TEHRAN 8425 OF
NOV 29, 1973

SUMMARY: REVISED IRANIAN BUDGET FOR THIS YEAR AND PROJECTIONS
FOR NEXT YEAR PRESENTED TO MAJLIS BY PRIME MINISTER ON DECEMBER 1.
REVENUES AND EXPENDITURES FOR CURRENT YEAR HAVE ALMOST DOUBLED AND
ARE PROJECTED TO RISE BY FURTHER 11.6 PERCENT NEXT YEAR. SPENDING
PLANS FOR BOTH YEARS INCLUDE SHARPLY INCREASED OUTLAYS FOR
MILITARY, SOCIAL WELFARE, AND INDUSTRY AND AGRICULTURE. NEW
BUDGET IS IN LINE WITH REQUIREMENTS OF RAPIDLY GROWING ECONOMY AND
WITH GOI DETERMINATION TO USE OIL WEALTH FOR ECONOMIC DEVELOPMENT,
IMPROVED WELFARE OF POPULATION, AND MUCH STRONGER DEFENSE
ESTABLISHMENT. END SUMMARY.

2. LONG-AWAITED BUDGET REVISIONS FOR CURRENT IRANIAN YEAR (1353--
MARCH 21, 1974-MARCH 20, 1975) AND PROPOSALS FOR YEAR BEGINNING
MARCH 21, 1975 (1354) FINALLY WERE PRESENTED TO MAJLIS (LOWER
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HOUSE OF PARLIAMENT) BY PRIME MINISTER HOVEYDA ON DECEMBER 1,

OVER TWO MONTHS PAST SCHEDULED PRESENTATION IN LATE-SEPTEMBER. AIRGRAM ENCLOSING BUDGET TABLES WILL FOLLOW AFTER PARLIAMENTARY APPROVAL IS OBTAINED. MAJLIS PROBABLY WILL FOLLOW USUAL PATTERN AND MAKE ONLY MINOR CHANGES IN BUDGET. ALL CALCULATIONS BELOW ARE MADE AT RLS 67.5 EQUAL \$1.

3. 1353: MUCH MORE STRIKING THAN INCREASED SPENDING PROPOSED FOR NEXT YEAR ARE SHARPLY HIGHER REVENUE AND EXPENDITURE ESTIMATES FOR CURRENT IRANIAN YEAR. ON REVENUE SIDE, MAIN DIFFERENCE PREDICTABLY IS INCREASE IN GAS AND OIL RECEIPTS FROM ABOUT \$7.3 BILLION TO JUST UNDER \$20 BILLION. RECEIPTS FROM OTHER SOURCES ARE BELOW AMOUNTS PREDICTED FOR THIS YEAR, BUT OIL AND GAS INCOME SO COMPLETELY DOMINATES GOI REVENUE (84 PERCENT IN 1353) THAT SHORTFALLS HAVE NO IMPACT. NO INTERNAL BORROWING TOOK PLACE DURING YEAR, AND UTILIZATION OF FOREIGN LOANS AT ONLY \$178 MILLION IS LESS THAN ONE-FIFTH OF AMOUNT ORIGINALLY PROJECTED.

4. GENERAL BUDGET FOR CURRENT YEAR IS BALANCED AT \$23.9 BILLION, ALMOST TWICE THE ORIGINAL 1353 PROPOSALS (REFERENCE A). ADDITION OF ABOUT \$7 BILLION IN EXPENDITURES ON GOVERNMENT AGENCIES AND PUBLIC SECTOR COMPANIES BRINGS OVERALL TOTAL TO \$30.8 BILLION WHICH IS AMOUNT TOUTED IN PRESS AS TOTAL GOI BUDGET. HOWEVER, SMALLER FIGURE FOR GENERAL BUDGET IS MORE ACCURATE MEASURE OF BUDGET'S FISCAL IMPACT AND MORE COMPARABLE TO BUDGETARY PROCEDURES IN OTHER COUNTRIES.

5. WHILE OVERALL SPENDING IN REVISED BUDGET FOR THIS YEAR HAS ALMOST DOUBLED, THERE ARE NO DRASTIC CHANGES IN PERCENTAGES DEVOTED TO VARIOUS SECTORS OF IRANIAN ECONOMY. MAIN DIFFERENCE IS ADDITION OF NEW CATEGORY FOR INVESTMENT ABROAD AND LOANS AND OTHER ASSISTANCE TO FOREIGN COUNTRIES AND INTERNATIONAL BODIES. REVISED 1353 ESTIMATES SHOW \$3.6 BILLION OR 15.2 PERCENT OF EXPENDITURES IN THIS CATEGORY. DEFENSE SPENDING HAS BEEN INCREASED FROM \$3.2 BILLION TO \$5.5 BILLION, BUT PERCENTAGE OF TOTAL EXPENDITURES HAS DROPPED FROM 26.0 TO 23.3. SIMILARLY, SOCIAL WELFARE EXPENDITURE RAISED FROM \$2.3 BILLION TO \$3.6 BILLION, BUT PROPORTION OF TOTAL EXPENDITURES DOWN FROM 18.8 TO 15.2 PERCENT. REPAYMENT OF LOANS IS UP FROM \$876 MILLION TO \$1.6 BILLION, REFLECTING GOI FOREIGN DEBT PRE-PAYMENT POLICY.

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6. 1354: PROJECTED REVENUES AND EXPENDITURES FOR IRANIAN YEAR BEGINNING MARCH 21, 1975, BRING GENERAL BUDGET TOTAL TO \$26.5 BILLION, ONLY 11.6 PERCENT ABOVE THIS YEAR'S TOTAL. INCREASE IN GAS AND OIL REVENUES OF \$1.9 BILLION BRINGS PROJECTED TOTAL TO \$21.9 BILLION, AN INCREASE OF 9.6 PERCENT. TAX REVENUES AT \$3.2 BILLION ARE INCREASE OF ALMOST 50 PERCENT, AND FOREIGN BORROWING AT ONLY \$222 MILLION REPRESENT ONLY SLIGHT INCREASE OVER THIS YEAR. ADDITION OF \$9.7 BILLION IN EXPENDITURES ON

GOI AGENCIES AND PUBLIC SECTOR COMPANIES BRINGS TOTAL 1354 BUDGET TO \$36.2 BILLION.

7. ON PAYMENTS SIDE, BIGGEST INCREASE IS FOR DEFENSE SPENDING WHICH IS PROJECTED AT \$7.8 BILLION, OR 29.4 PERCENT OF TOTAL. ONLY \$2.6 BILLION IS BUDGETED FOR INVESTMENT ABROAD AND LOANS AND OTHER ASSISTANCE TO FOREIGN COUNTRIES AND INTERNATIONAL BODIES, MAKING THIS CATEGORY SLIGHTLY UNDER 10 PERCENT OF TOTAL SPENDING. PROJECTED FOREIGN LOAN REPAYMENT FOR NEXT YEAR IS ONLY \$838 MILLION, INDICATIONG PLANNED DEBT PRE-PAYMENT WILL MOSTLY BE COMPLETED THIS YEAR.

8. BUDGET SPEECH: IN HIS BUDGET PRESENTATION, PRIME MINISTER SAID RLS 4,698 BILLION (\$69.6 BILLION) WILL BE INVESTED IN REVISED FIFTH DEVELOPMENT PLAN (1973-78). NO OTHER INDICATIONS OF PLAN SPENDING MADE IN ADDRESS OR REFERENCE TO EXPECTED PUBLICATION DATE. THIS AMOUNT IS ABOUT \$1 BILLION HIGHER THAN FIGURE ANNOUNCED EARLIER (TEHRAN 6458). HOVEYDA MADE STANDARD GOI BOW TO DIFFICULT CURRENT WORLD ECONOMIC SITUATION FOR WHICH BLAME MUST BE PLACED ON INDUSTRIAL COUNTRIES' FAILURE TO SOLVE THEIR INFLATION PROBLEM. HOVEYDA EMPHASIZED SOCIAL WELFARE, CONTINUING LARGE INVESTMENTS IN INDUSTRY AND AGRICULTURE, AND OTHER ECONOMIC DEVELOPMENT ASPECTS OF BUDGET. HE ESTIMATED CURRENT PRICES PER CAPITA GNP DURING COMING IRANIAN YEAR WOULD REACH \$1,570. PRIME MINISTER REITERATED GOI DETERMINATION TO REDUCE RATE OF INFLATION AND SAID CURRENT PROGRAM OF SUBSIDISING PRICES OF BASIC COMMODITIES, MORE LIBERAL IMPORTS, BETTER INTERNAL DISTRIBUTION, AND PRICE CONTROLS ON INDUSTRIAL GOODS WILL CONTINUE. HE PROMISED STEPPED UP TRAINING AND CONTINUED IMPORT OF FOREIGN EXPERTS, WHERE SUFFICIENTLY TRAINED IRANIANS ARE NOT AVAILABLE, TO ALLEVIATE MANPOWER SHORTAGE. LARGE INVESTMENTS WILL BE MADE TO REMOVE OTHER BOTTLENECKS IN ECONOMY SUCH AS PORTS, INTERNAL TRANSPORT NETWORK, COMMUNICATIONS ETC. HE ALSO EXPRESSED GOI

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CONCERN OVER INCOME DISTRIBUTION AND SAID SALARIES OF MILITARY AND CIVILIAN EMPLOYEES WILL BE RAISED DURING 1354. HE ALSO SAID MINIMUM INCOME LEVEL FOR INDIVIDUALS WILL REACH RLS 12,000 MONTHLY (ABOUT \$180) BY END OF FIFTH PLAN IN MARCH, 1978.

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INR-05 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01 /079 W

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C O N F I D E N T I A L SECTION 2 OF 2 TEHRAN 10257

9. IN POST-BUDGET PRESENTATION INTERVIEW APPEARING IN SEMI-OFFICIAL KAYHAN INTERNATIONAL ON DECEMBER 3, MINISTER OF PLANNING AND DIRECTOR OF PLAN AND BUDGET ORGANIZATION A.M. MAJIDI DESCRIBED BUDGET AS COMBINATION OF PROGRAM TO BRING ABOUT RAPID ECONOMIC GROWTH WHILE AT SAME TIME REMOVING INFRASTRUCTURE BOTTLENECKS, EXPANDING SOCIAL SERVICES, AND KEEPING INFLATION WITHIN REASONABLE BOUNDS, WHICH MAJIDI WAS QUOTED AS SAYING IS IN 12-13 PERCENT RANGE.

10. COMMENT: WITH NO INTERNAL BORROWING EITHER IN THE REVISED BUDGET FOR THIS YEAR OR IN PROPOSALS FOR 1354, THE BUDGET'S FISCAL IMPACT SHOULD BE NEUTRAL. HOWEVER, ALREADY SERIOUS RATE OF INFLATION SEEMS UNLIKELY TO BE REDUCED APPRECIABLY IN NEAR FUTURE IN SPITE OF SLIGHTLY ENCOURAGING AND WIDELY PUBLICIZED MONTHLY PRICE INDEX FIGURES FOR OCTOBER. RATE OF INFLATION DURING FIRST SIX MONTHS OF THIS IRANIAN YEAR WAS ABOUT 20 PERCENT COMPARED TO SAME PERIOD LAST YEAR, AS MEASURED BY WHOLESALE PRICE INDEX, AND NEARLY 16 PERCENT ON BASIS OF CONSUMER PRICE INDEX. AS EMBASSY HAS REPORTED PREVIOUSLY, OFFICIAL INDICES ARE WIDELY BELIEVED TO UNDERSTATE REAL RATE OF INFLATION.

11. DEFENSE EXPENDITURE FIGURES APPEARING IN BUDGET PROBABLY UNDERSTATE REAL AMOUNTS BEING SPENT ON IRANIAN MILITARY ESTABLISHMENT. ARMISH MAAG CURRENTLY ESTIMATES THIS YEAR'S MILITARY
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SPENDING AT ALMOST \$6.5 BILLION AND PROJECTS THE 1354 TOTAL AT \$9.3 BILLION, OR \$1 BILLION AND \$1.5 BILLION MORE, RESPECTIVELY, THAN APPEARS IN OFFICIAL BUDGET. SOCIAL WELFARE EXPENDITURE INCREASES ARE IMPRESSIVE, HOWEVER, WITH LARGE HIKES IN HOUSING, EDUCATION, AND MEDICAL CARE. GOI CLEARLY FEELS IN ITS CURRENT

STRONG FINANCIAL POSITION THAT IRAN CAN AFFORD BOTH GUNS AND BUTTER.

12. FIGURES FOR FOREIGN ASSISTANCE AND INVESTMENT FOR THE TWO YEARSTOTAL SOME \$1.5 BILLION LESS THAN AMOUNTS RECENTLY PROJECTED BY CENTRAL BANK INTERNATIONAL AFFAIRS DIRECTOR-GENERAL SHIRAZI (TEHRAN A-170). IN HIS BUDGET PRESENTATION, HOVEYDA SPECIFIED THAT FUTURE AID COMMITMENTS WILL VARY "IN DIRECT PROPORTION TO THE PRICE OF OIL AND RATE OF INTERNATIONAL INFLATION." GOI APPARENTLY STILL HAS NO FIRM POLICIES ON FOREIGN AID AND INVESTMENT AND PROBABLY WILL CONTINUE TO OPERATE ON AD HOC BASIS.

13. OVERALL, BUDGET CONTAINS NO SURPRISES AND IS CONSISTENT WITH NEEDS OF CURRENT RAPIDLY DEVELOPING IRANIAN ECONOMY. HELMS

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: GOVERNMENT BUDGET, BUDGET DATA, ECONOMIC REPORTS
Control Number: n/a
Copy: SINGLE
Draft Date: 03 DEC 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: izenbei0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974TEHRAN10257
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D740350-0363
From: TEHRAN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19741263/aaaacbyg.tel
Line Count: 239
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION NEA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: A) TEHRAN A-007 B) TEHRAN 0067 C) TE, HRAN 8425 OF
Review Action: RELEASED, APPROVED
Review Authority: izenbei0
Review Comment: n/a
Review Content Flags:
Review Date: 20 AUG 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <20 AUG 2002 by izenbei0>; APPROVED <14 MAR 2003 by izenbei0>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: REVISED BUDGET FOR CURRENT IRANIAN YEAR AND PROPOSALS FOR YEAR BEGINNING MARCH 21, 1975 (1354)
TAGS: EFIN, ECON, IR
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005